CREDIT UNION DEPOSIT GUARANTEE CORPORATION

1974-2009

2009 ANNUAL REPORT

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

celebrating 35 years

OF DEPOSIT PROTECTION

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

1974-2009

SERVING ALBERTA...

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the Credit Union Act, *Chapter C-32, revised Statutes of Alberta, 2000. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. The* Credit Union Act *provides that the Province of Alberta will ensure that this obligation of the Corporation is carried out.*

CONTENTS

MISSION

To provide regulatory oversight and guarantee of deposits to enable a strong, viable credit union system in Alberta.

VISION

To have the strongest most successful credit union system in Canada.

PRIMARY ROLES

- Provide a 100% guarantee of deposits held with Alberta credit unions.
- Regulate credit unions and enforce the *Credit Union Act*.
- Review, advise and direct on credit union sound business practices.
- Monitor credit union performance and implement appropriate actions to improve performance and reduce risks.
- Establish individual credit union loan approval limits and provide an appropriate adjudication process for loans exceeding these limits.

CORPORATE VALUES

- We think and act strategically to proactively address the changing environment of our stakeholders.
- We communicate positively and effectively to achieve mutual understanding with our stakeholders.
- We act with personal integrity and accountability to foster trust and respect.
- We work collaboratively, as a team and with our stakeholders, to build and strengthen relationships.
- We embrace change and continuous improvement to support the evolving needs of our stakeholders.
- We practice and encourage ethics and governance best practices.

CORPORATE GUIDING PRINCIPLES

GOVERNANCE

- We employ sound business practices in our governance and operations and model these for the credit unions.

OPERATIONS

- We oversee business practices in Alberta credit unions through risk-based management practices to monitor compliance to the *Credit Union Act*.
- We strive to maintain the Deposit Guarantee Fund at a level that will enable us to independently provide the 100% guarantee of credit union deposits.
- We operate efficiently and effectively in achieving our goals through continuous improvement of our processes and practicing prudent fiscal management.

EMPLOYEES

- We treat all employees with fairness and respect.
- We encourage creativity, innovation and individual initiative in our employees in support of continuous improvement and growth.
- We promote wellness and work-life balance.

EXTERNAL STAKEHOLDERS

- We encourage and support credit union autonomy and accountability.
- We maintain open and effective communications with the Ministry of Finance & Enterprise, Credit Union Central Alberta Limited and Alberta credit unions to ensure a common understanding of each other's roles.
- We constantly seek ways to improve stakeholder service and satisfaction.

MESSAGE FROM THE CHAIR

"BUILDING ON 35 YEARS OF DEPOSIT PROTECTION"

The 35th anniversary of the Corporation affords us the opportunity to both reflect on our past accomplishments and look toward the future. The credit union system in Alberta has gone through many changes since our inception.

Thirty five years ago, credit union total assets were approximately $500 million with minimal equity (less than 1%). As at October 31, 2009, the total assets exceeded $17.4 billion and equity was approximately $1.3 billion (7.5%). At our peak, the Corporation and its subsidiaries employed close to 80 people. Currently, with no subsidiaries, we employ 42 people with specialized skill sets and are well able to meet the complexities of the financial world in which we operate. This achievement is truly reflective of the collaborative effort between Alberta credit unions, Credit Union Central Alberta Limited, Alberta Finance & Enterprise and us.

Over the past 35 years we have seen interesting economic times within Alberta. Most recently we have gone from unprecedented economic growth to the volatile times which we have experienced during the past couple of years. The financial services industry throughout the world has faced significant challenges. The continued economic slowdown has also resulted in some credit unions having to re-evaluate their strategies to meet current realities. Some other credit unions have experienced margin compression, financial losses and rising delinquency rates but these are still well within industry standards. Even with all of these challenges, I am still proud to say Alberta's credit union system, as a whole, remains strong. Compared to the western provinces and Ontario, the Alberta credit union system has the highest capital to risk-weighted assets and is the most profitable. Our credit unions have worked hard to adopt our Standards of Sound Business and Financial Practices which include, but are not limited to, good governance practices and enterprise risk management principles.

We believe the continued success of our credit unions during these difficult times has benefited from a strong collaborative approach to the regulatory regime. At the Corporation, we are extremely proud of the consultative approach that we use in working together with the credit union system to manage the challenges which we all face. This coupled with our enhanced risk based management approach, provides for a strong regulatory environment. Our goal is to work with credit unions and provide value-added advice and assistance. By working together we make our system stronger. We feel this approach better serves not only the credit unions but all of their members across Alberta. We also believe this approach is validated by the results of our recent Credit Union Consultation Survey which indicated 97% of credit unions responding to the survey are satisfied with how we carry out our mandate.

As we look to the future on our 35th anniversary, I am confident that our policies and programs continue to support our mandate and contribute toward the continued strength and stability of the Alberta credit unions. With uncertain times ahead, I believe there are three areas which will help us all meet tomorrow's challenges:

Good Governance – With the growing complexities in today's financial world, more than ever, we need directors who have the appropriate sophistication to guide their credit unions to success. It is the members' responsibility, and one that must be taken seriously, to elect directors who have the expertise, integrity and willingness to serve. It is an expectation that directors hold management accountable to a balanced

approach for the long term success and viability of the credit unions. Good directors influence management to adopt the right tone at the top, thereby gaining the confidence of the employees, members and other stakeholders.

Strong Capital and Liquidity Positions – Regulatory capital is a legal requirement for credit unions. We encourage capital levels in excess of the minimum and look beyond regulatory capital to support the managed risks of the credit unions. While we realize it can be expensive to maintain surplus liquidity, it is a good practice for a credit union to have multiple sources of liquidity and not rely solely on outside sources to fund its liquidity position. We have seen, in recent times, these external sources evaporate and make it more challenging for some credit unions to fund the demand for loans for their members.

Due Diligence – We must stay diligent not only to the obvious matters that can affect the viability and sustainability of our credit unions but also to the many outside influences that can affect us. Even when we think we have all our risks appropriately mitigated, it remains critical that none of us become complacent. We must remain vigilant in all that we do.

All of us should be very proud that our Alberta credit union system has faced the economic conditions of 2008 and 2009 without direct government liquidity, equity support, and/or accounting concessions which have been provided to some financial institutions. This is an outstanding achievement and is deserving of the strongest commendation. I congratulate all the system for this remarkable achievement.

In 2009, three members retired from our board; Allister McPherson (4 years) former Chair, Brian Evans (6 years) former Vice Chair and system representative, and Robert Bhatia (2 years) the former Deputy Minister of Finance & Enterprise. On behalf of my fellow directors, we extend our sincere appreciation to these individuals for their dedicated service and significant contributions to the success of the Corporation and the credit union system. We welcome new board members Peter Lindhout and Tim Wiles. Peter has worked in the credit union system for many years, most recently as the General Manager of Christian Credit Union Limited. Tim is currently the Deputy Minister of Alberta Finance & Enterprise. We look forward to the significant experience and insight both Peter and Tim will bring to our board.

Our board uses best practice governance standards in all of our activities in order to enhance our organizational effectiveness. We constantly adopt best practices suitable for our organization and espouse those principles which will also benefit the credit union system.

I would like to take this opportunity to express my appreciation to all our board members for their dedication and enthusiasm in working together in carrying out their responsibilities. I also thank our management team and all of our employees for their efforts in contributing to our success over the past year. Finally, we also wish to thank all of our credit unions, Credit Union Central Alberta Limited, and Alberta Finance & Enterprise, for their cooperation as we work towards our vision of having the strongest, most successful credit union system in Canada.

Ken Motiuk, C. Dir.
Chair of the Board

"LOOKING BACKWARD TO LEARN. LOOKING FORWARD TO DO BETTER"

We are continually challenging ourselves to become better in all that we do. In an effort to do so, we frequently look back on our past activities to learn and thereby improve the way we carry out our mandate and responsibilities. As we reach our 35th anniversary milestone, we reflect on the significant events that have occurred and we are pleased to provide a brief synopsis of these events later in this report.

We have a strong forward-looking focus to our activities. This is assisted by a rigorous strategic planning process which is constantly in motion. The process both focuses and guides our organization into the future. Coming out of our planning process the following is a summary of the major initiatives we are proud to have accomplished in 2009.

Enhanced Risk Based Management Program – We have invested heavily over the past few years in the development of our new enhanced risk based management program. This is an industry leading regulatory model based on proactive principles with the flexibility to meet the needs of the various credit union sizes and complexities. It now includes an Information Technology governance component which will assist in identifying Information Technology risk to the credit unions.

International Financial Reporting Standards – The Corporation is well positioned to meet the requirements for the upcoming accounting changes. We also continue to play a lead role in chairing the regulators' IFRS working group and participate on the advisory group for the national credit union IFRS initiative.

Information Management – We have made enhancements to our physical and electronic records management systems in order to provide an automated and functional approach in managing our corporate records. We furthered the completion of our new internal intranet site and rolled out our new extranet site for the sharing of information with our stakeholders. We look forward to making the sharing of information both internally and with our credit unions a more user friendly experience.

For all of our projects and initiatives, we go above and beyond the basic requirements to follow sound practices in our systems and processes, and therefore they can be used as a model for other jurisdictions and our stakeholders. Whether it is board governance processes, adoption of enterprise risk management, or IT security enhancements, we implement best practices and improve them to make them better.

We recognize there has been a significant shift in the complexity of our mandate as we regulate a smaller number of more sophisticated credit unions. Training our employees has been a big part of how we have met this challenge, with employees taking an average of over six formal training days per person in 2009. This past year, we have recruited individuals with more specialized expertise in order to assist in appropriately monitoring our more complex credit unions. We have done this while at the same time balancing it with prudent fiscal management. I applaud the efforts of our management team in this regard.

Using fundamentals of Enterprise Risk Management and Sound Business Practices, we monitor risks not only as they relate to Alberta but also nationally and internationally. These risks relate to geographic, financial, environmental and regulatory activities. We have established proactive sensitivity models related to some of these risks and will be adding levels of sophistication to meet the ongoing needs of our

stewardship responsibility. Risks are monitored constantly, impacts analyzed and issues appropriately elevated for action to protect the best interests of the Corporation and the credit union system.

We continue to foster the consultative and collaborative approach with credit unions on risk management and success strategies. We place a strong emphasis on the importance of working together so we can meet tomorrow's challenges successfully and optimize the system's performance.

As we look forward on this 35th anniversary date, we are excited about the future of the Alberta credit union system. We know for the foreseeable future, we are going to face economic and regulatory uncertainties. This will require our continued diligence so that we can remain successful.

While we appreciate these uncertainties, we are entering a new era of significant change in the credit union system. Many of our major credit unions have seen their senior management retire and this has resulted in a number of new CEOs and management. These new leadership teams are bringing new ideas and fresh approaches which will benefit their credit unions and the overall system. Over the next few years, we will likely see more attention being focused on how the centrals across the country operate. We look forward to the benefits that change will bring to make all systems across the country stronger and more efficient. These are but a few of the changes we look forward to and we acknowledge that there are many more.

I would like to thank our employees and the Board of Directors for their support in our success in 2009. The bar has been raised in our organization to one which is a model for all of our stakeholders. Many of our activities and actions are focused on the future. I know that expectations, for our organization, will continue to increase as we move forward and I am also confident that we will professionally and effectively meet the challenges as we look backward to learn and forward to do better.

Paul A. Kennett, FICB, ICD.D
President and Chief Executive Officer

STABILIZATION BEGINS (PRE CORPORATION)

1960-1966

- Credit Union Stabilization Plan of the Credit Union League of Alberta was established effective January 1, 1960. Administered by a 5-member Board of Trustees.[1]
- Original fund target was $100,000; with mandatory participation for League members and voluntary participation for non-members.[2]
- Contributions were made mandatory for all credit unions.[2]
- The fund maximum target was increased to $1,000,000 with a shift to some prevention and rehabilitation.[2]

CORPORATION BEGINS

1974-1979

- Credit Union Stabilization Corporation established effective December 31, 1974 by legislation passed in 1975. Management of the Corporation was vested in the Credit Union Federation of Alberta (located in Calgary with a branch in Edmonton), with 5 board members consisting of 3 members appointed by the Federation board of directors, 1 member elected by the Federation members (not a Federation board member) and 1 member appointed by the Minister. The general manager of the Federation and the director of credit unions were ex officio members of the board but not entitled to vote.[3]
- Special Loans Committee was appointed to approve credit union loans over established limits.

1980-1984

- Province of Alberta (Province) agreed to assist in financing the credit union system, therefore Credit Union Stabilization Corporation was restructured as an independent body with a board appointed by the Province.
- The Corporation was relocated to Edmonton, with a branch in Calgary and management by Credit Union Federation of Alberta (referred to as Central) was cancelled.

1985-1989

- The *Credit Union Act* was amended in 1985.
- Corporation established a wholly-owned subsidiary, SC Properties Ltd. (SCPL) to acquire, manage, develop and market foreclosed properties of deficit credit unions, in exchange for interest earning notes.
- Corporation established another wholly-owned subsidiary, SC Financial Ltd. (SCFL) for the purpose of providing deficit financing assistance for Alberta credit unions under supervision.
- Corporation provided $19 million and the credit union system provided $10 million in assistance.
- The new *Credit Union Act* was proclaimed and established the Credit Union Deposit Guarantee Corporation.

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1 Credit Union League of Alberta Brochure
2 Forging the Alternative, A History of the Alberta Credit Union Idea by Arthur E. Turner, Chapter XIII
3 Credit Union Stabilization Corporation "Act, Policies, Bylaws"

- The new Act increased the board membership to 7 members and resulted in the Corporation becoming a provincial corporation subject to the *Financial Administration Act*.

1990-1994

- SCPL was transferred to NA Properties Ltd. (a Crown corporation) and the Credit Union Restructuring Agreement was signed committing the Corporation to a 0.11% special contribution payment toward interest costs on the debentures issued by SCFL until 2010.
- Calgary branch office closed.
- Minister authorized several delegated functions to be performed by the Corporation including examination of credit unions.
- Fund equity at $40 million in 1993.
- SCPL Notes were redeemed in full.

1995-1999

- Fund equity at $60 million in 1998.
- 25 YEARS OF THE CORPORATION as of December 31, 1999.

2000 – 2004

- January 1 marked 40 years of Stabilization.
- The Revised Statues of Alberta 2000 Chapter C-32 of the *Credit Union Act* increased the board membership to eight members. Two individuals are appointed as directors on the nomination of Credit Union Central Alberta Limited. The Chair and Vice Chair of the Board of Directors are appointed by the Minister.
- Stabilization Preferred Shares were cancelled.
- Outstanding debentures paid off. This ended the credit unions' and Province's obligation and the financing program nine years ahead of schedule.
- 30 YEARS OF THE CORPORATION as of December 31, 2004.

2005 – 2009

- The Revised Statues of Alberta 2000 Chapter C-32 of the *Credit Union Act* increased the board membership to nine members.
- Fund equity at $135 million in 2009.
- 35 YEARS OF THE CORPORATION as of December 31, 2009.

2010 STRATEGIC GOALS

Strategic Goal #1

To provide 100% deposit protection for credit unions while minimizing payouts from the deposit guarantee fund.

Strategic Objectives

- To manage and maintain the fund at an appropriate size
- To minimize the amount of financial assistance paid to credit unions

Strategic Goal #2

To minimize risks to the fund by helping credit unions to be strong and successful.

Strategic Objective

- To encourage credit unions to appropriately manage their risk

Strategic Goal #3

To assist credit unions to maintain a quality credit portfolio.

Strategic Objectives

- To provide quality adjudication service and responsiveness to credit unions
- To promote a high standard of credit application and adjudication discipline within the credit unions

Strategic Goal #4

To anticipate and prepare for risks, and improve and promote our governance practices.

Strategic Objective

- To improve our approach to anticipating, identifying and responding to risks

Strategic Goal #5

To have appropriate skills, knowledge and work environment to carry out our mandate effectively while adding value to our stakeholders.

Strategic Objectives

- To support learning opportunities for our employees to develop their knowledge, skills and competencies to meet the current and future needs of the Corporation
- To maintain a positive workplace environment and competitive compensation strategies to attract and retain competent and engaged employees
- To enhance processes to deliver high quality, value added services in a fiscally responsible manner

Strategic Goal #6

To maintain open and effective communications with our key stakeholders to have a common understanding of and to support each others' roles and needs.

Strategic Objective

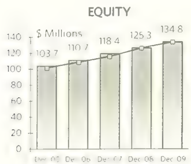
- To foster cooperation and consultative relationships with Alberta Finance & Enterprise, Credit Union Central Alberta Limited, credit unions, other jurisdictions and other key stakeholders

2009 GOALS AND RESULTS

Goals & Strategies	Target Met	Results
Goal 1: To provide 100% deposit protection for credit unions while minimizing the exposure of the deposit guarantee fund to loss.		
1. To manage the fund to ensure its viability.	✓	1. Enhanced contingency plans and followed conservative investment strategy.
2. To maintain the fund at an appropriate size.	✓	2. Target for fund was 0.81% of total credit union deposits and borrowings, achieved 0.85%.
3. To minimize the amount of financial assistance paid out to credit unions.	✓	3. Financial assistance payouts were below budget.
Goal 2: To minimize risks to the fund by helping credit unions to be strong, stable and successful.		
1. To employ risk-based management processes to regulate credit unions.	✓	1. Employed an examination process with credit unions using a risk-based management approach.
2. To encourage credit unions to appropriately manage their own risk.	✓	2. Continued to encourage credit unions to govern and manage their organizations under the Standards of Sound Business and Financial Practices, which includes the Enterprise Risk Management (ERM) process to manage risks.
Goal 3: To assist credit unions to maintain a quality credit portfolio.		
1. To maximize service and responsiveness to credit unions.	✓	1. Established service levels were met or exceeded.
2. To promote a high standard of credit discipline within the credit unions.	✓	2. Conducted loan transaction reviews to assess the quality of credit underwriting. Developed enhanced credit review process to support risk based examinations.
Goal 4: To anticipate and prepare for emerging risks, including improving and promoting good governance practices.		
1. To enhance our means of identifying and responding to emerging risks.	✓	1. Completed implementation of an enhanced risk based management program for credit union examinations and held monthly meetings to discuss credit union emerging risks.
2. To engage employees directly in the enterprise risk process.	✓	2. Through the ERM Advisory Group employees have been engaged directly in the ERM management process. A three year plan has been completed.

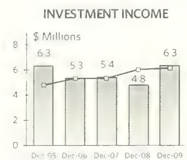
2009 GOALS AND RESULTS

Goals & Strategies	Target Met	Results
Goal 5: To have the appropriate resources and invest them in the most cost effective manner to optimize delivered value to our stakeholders.		
1. To manage our costs within the budget.	✓	1. Expenses maintained below budget.
2. To invest in our employees and directors training to ensure their knowledge and skills meet the needs of the Corporation.	✓	2. Completed scheduled training sessions for all employees enhancing team effectiveness and skill levels. The average training per employees was 6.7 days compared to a target of 3.5 days.
3. Maintain a positive workplace environment to attract and retain competent and committed employees.	✓	3. Implemented recruitment/retention strategy, developed succession plan policy and program, reviewed employee benefits including compensation review, and conducted employee engagement survey exceeding 80% target, achieved 83%.
Goal 6: To maintain open and effective communications with the Ministry of Finance & Enterprise, Credit Union Central Alberta Limited (Central), and credit unions to ensure a common understanding of each others' roles and needs.		
1. Foster cooperation and consultative relationships with all stakeholders.	✓	1. Met objective: • The Corporation had joint executive meetings with the two largest credit unions and Central. • The Corporation's CEO met regularly with the CEOs of many credit unions and Central. • The Corporation met with other regulators across the country.



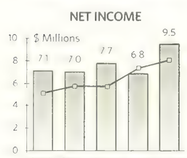
EQUITY

The equity in the Deposit Guarantee Fund is available to protect Alberta credit union depositors. In 2009, the Deposit Guarantee Fund reached $134.8 million, which was slightly above budget.



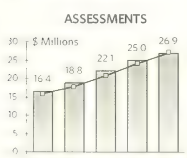
INVESTMENT INCOME

Investment income for the year was above the budgeted amount. A major reason for this was the realization of a net gain on sales of investments. The Corporation does not budget for gains or losses.



NET INCOME

Net income for 2009 was above the budgeted amount mainly as a result of lower special contribution and administration expenses; and higher investment income.



ASSESSMENTS

Deposit guarantee assessments for 2009 were lower than the budgeted amount. The actual growth in the total assessment base (deposits and borrowings) for all credit unions was lower than budgeted. The assessment rate charged to credit unions was maintained at 17 basis points of deposits and borrowings.

ADMINISTRATION EXPENSE

The 2009 administration expenses were under budget, largely as a result of filling vacant full time equivalent positions later in the year; and lower than expected training costs.

LEGEND

Actual   Budget

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Credit Union Deposit Guarantee Corporation ("Corporation"), and all other information contained in the annual report, have been prepared and presented by management, who are responsible for the integrity and fair presentation of the information. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements and related financial information presented in this annual report are consistent. They include amounts determined by management based on informed judgments and estimates with appropriate consideration to materiality.

Management is responsible for the design and maintenance of an accounting and financial reporting system along with the supporting systems of internal controls. These are designed to provide reasonable assurance as to the reliability of financial information, that transactions are properly authorized and recorded and that the Corporation's assets are appropriately safeguarded. These controls include written policies and procedures, the selection and training of qualified employees, a code of conduct and ethics, the establishment of an organizational structure and appropriate delegations of authority.

The Board of Directors, acting through the Audit & Finance Committee, oversees management's responsibilities for the Corporation's financial reporting and systems of internal control. The Audit & Finance Committee reviews the financial statements and other financial information presented in the annual report, as well as any issues related to them, with both management and the external auditors before recommending the financial statements for approval to the Board. Their review of the financial statements includes an assessment of key management estimates and judgments material to the financial results. The Audit & Finance Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems.

The Auditor General of Alberta has been engaged to perform an independent, external audit of these financial statements in accordance with Canadian generally accepted auditing standards and has expressed his opinion in the report following. The Auditor General has full and unrestricted access to the Audit & Finance Committee and meets with them periodically to discuss their audit, including any findings as to the integrity of the Corporation's financial reporting and the adequacy of internal controls. They also meet with the Audit & Finance Committee without management being present.

P.A. Kennett, FICB, ICD.D
President and Chief Executive Officer

E.J. Friedrich, BComm, CA
Vice President, Finance and Corporate Services

AUDITOR'S REPORT

To the Directors of the Credit Union Deposit Guarantee Corporation

I have audited the balance sheets of the Credit Union Deposit Guarantee Corporation as at December 31, 2009 and 2008 and the statements of income and equity, comprehensive income and accumulated other comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Merwan N. Saher CA
Acting Auditor General

Edmonton, Alberta
March 4, 2010

AUDITOR GENERAL
Alberta

BALANCE SHEET

As at December 31

($ Thousands)		2009		2008
ASSETS				
Cash	$	23,106	$	21,952
Investments (Note 3)		129,893		120,558
Accrued interest receivable		707		766
Income taxes receivable		-		204
Due from credit unions		4,537		4,277
Prepaids		53		37
Property and equipment (Note 4)		217		259
	$	**158,513**	**$**	**148,053**
LIABILITIES				
Accounts payable and accrued liabilities	$	759	$	761
Accrual for financial assistance (Note 5)		1,800		1,800
Deferred revenue		32		60
Income taxes payable		43		-
Future income taxes liability		572		561
Special contribution payable (Note 6)		17,625		16,700
Long-term unclaimed credit union balances		731		744
		21,562		**20,626**
Commitments and contingencies (Note 7)				
EQUITY				
Deposit Guarantee Fund		134,760		125,269
Accumulated Other Comprehensive Income		2,191		2,158
		136,951		**127,427**
	$	**158,513**	**$**	**148,053**

The accompanying notes and schedule are part of these financial statements.

Approved by the Board: , Director , Director

STATEMENTS OF INCOME AND EQUITY

For The Years Ended December 31

($ Thousands)		2009		2009		2008
		Budget		**Actual**		**Actual**
		(Note 12)				
DEPOSIT GUARANTEE FUND						
Revenues:						
Deposit guarantee assessments	$	27,503	$	26,945	$	25,027
Investment income (Note 3)		6,040		6,296		4,774
		33,543		**33,241**		**29,801**
Expenses:						
Provision for (recovery of) financial assistance (Note 5)		488		(11)		782
Special contribution (Note 6)		18,450		17,625		16,700
Administration expenses (Schedule 1)		6,506		6,093		5,568
		25,444		**23,707**		**23,050**
Income before income taxes		8,099		9,534		6,751
Income taxes (Note 9)		(96)		43		(92)
Net income from continuing operations for the year		8,195		9,491		6,843
Net income from discontinued operations (Note 8)		-		-		485
Equity at beginning of year		126,335		125,269		119,804
Equity distribution, discontinued operations (Note 8)		-		-		(1,863)
Equity at end of year	**$**	**134,530**	**$**	**134,760**	**$**	**125,269**

The accompanying notes and schedule are part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

For The Years Ended December 31

($ Thousands)		**2009**		**2009**		**2008**
		Budget		**Actual**		**Actual**
		(Note 12)				
Net income						
Deposit Guarantee Fund	$	8,195	$	9,491	$	6,843
Discontinued Operations (Note 8)		-		-		485
		8,195		**9,491**		**7,328**
Other comprehensive income						
Unrealized gains on available-for-sale financial instruments, net of future income tax of $194 (2008: $701)		-		730		2,830
Reclassification to net income, net of future income tax benefit of $185 (2008: $69)		-		(697)		259
		-		**33**		**3,089**
Comprehensive income	**$**	**8,195**	**$**	**9,524**	**$**	**10,417**
Accumulated other comprehensive income at beginning of year	$	-	$	2,158	$	(931)
Other comprehensive income, net of future income tax of $9 (2008: $770)		-		33		3,089
Accumulated other comprehensive income at end of year	**$**	**-**	**$**	**2,191**	**$**	**2,158**

The accompanying notes and schedule are part of these financial statements.

STATEMENT OF CASH FLOWS

For The Years Ended December 31

($ Thousands)	2009	2009	2008
	Budget	**Actual**	**Actual**
	(Note 12)		
Operating activities:			
Assessments received	$ 27,113	$ 26,685	$ 24,706
Investment income received	5,989	5,756	4,801
Financial assistance (paid) recovered	(488)	11	18
Interest and bank charges paid	(13)	(3)	(9)
Income taxes (paid) recovered	(289)	205	22
Paid to suppliers and employees	(6,321)	(5,986)	(5,322)
Special contribution paid	(16,880)	(16,700)	(15,008)
Cash flows from continuing operating activities	**9,111**	**9,968**	**9,208**
Cash flows from (to) discontinued operating activities (Note 8)	**-**	**-**	**(655)**
Cash flows from operating activities	**9,111**	**9,968**	**8,553**
Investing activities:			
Purchase of investments, net	(8,914)	(8,693)	(571)
Purchase of property and equipment	(197)	(121)	(172)
Cash flows used in investing activities	**(9,111)**	**(8,814)**	**(743)**
Financing activities:			
Distribution of Master Bond Pool (Note 8)	-	-	(1,863)
Cash flows used in financing activities	**-**	**-**	**(1,863)**
Cash inflow	-	1,154	5,947
Cash at beginning of year	13,005	21,952	16,005
Cash at end of year	**$ 13,005**	**$ 23,106**	**$ 21,952**

The accompanying notes and schedule are part of these financial statements.

NOTE 1 AUTHORITY AND PURPOSE

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. The primary purpose of the Corporation is to guarantee the repayment of all deposits with Alberta credit unions including accrued interest. The *Credit Union Act* provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 2009, credit unions in Alberta held deposits including accrued interest totalling $16.0 billion (2008 – $15.1 billion).

To meet this primary purpose, the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund. The Corporation may assess credit unions to support the Deposit Guarantee Fund. The Deposit Guarantee Fund's statement of income includes deposit guarantee assessments received from credit unions, investment income, provision for financial assistance, special contribution, administrative expenses and other related revenues and expenses.

The amount, timing and form of deposit insurance payments or financial assistance that may be required for credit unions is dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamation, arrangements, liquidation or dissolution. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Use of estimates

The Corporation's financial statements include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the accrual for financial assistance, provision for (recovery of) financial assistance, allowance for loan impairment, assessment revenue, and the fair values of investments. The Corporation reviews these estimates annually. Actual amounts may differ significantly from those estimates depending upon certain future events and uncertainties.

(c) Cash

Cash is on deposit in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta which is managed with the objective of providing competitive interest income while maintaining appropriate security and liquidity of capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2009, securities held in the CCITF have a rate of return of 1.4% per annum (2008: 3.5% per annum).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

(d) Investments and investment income

The Corporation's investments policy permits investments in fixed income securities and pooled funds. Investment assets are independently managed on a segregated basis by Alberta Investment Management Corporation (AIMCo), the Corporation's investment manager and in AIMCo pooled funds. The Corporation classified all investments in fixed income securities and pooled funds as available-for-sale (AFS).

Investments are carried at fair value in accordance with section (h) below. Substantially all securities held are purchased with the intention to hold them to maturity. However, as securities may be sold prior to maturity, investments including pooled funds are classified as available-for-sale.

Gains and losses on sale of investments are included with investment income in the year of sale. Interest income and dividend income are recognized when earned and are included in investment income. Any discounts or premiums are amortized over the life of the investment using the effective interest method.

When the fair value of an investment falls below its cost, and the decline is determined to be other-than-temporary, a loss equivalent to the difference between cost and current fair value is recorded against investment income in the statement of income. The assessment of other-than-temporary impairment considers the extent of the unrealized loss, the length of time that the security has been in a loss position, the financial condition of the issuer and the Corporation's intent to hold the security to any anticipated recovery.

(e) Property and equipment

The following rates are designed to amortize the cost of property and equipment over their estimated useful lives:

Furniture and equipment	five year straight-line
Computer equipment	three year straight-line
Leasehold improvements	straight-line over lease term
Computer software	one year straight-line

(f) Income taxes

The Corporation records income taxes based on the tax liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Therefore, future income taxes are recognized based on the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount.

(g) Accrual for financial assistance

The accrual for financial assistance is comprised of three main components:

1. The Corporation recognizes financial assistance to specific credit unions as an expense when the need for financial assistance becomes likely and the amount can reasonably be estimated.

2. The Corporation recognizes financial assistance as a result of indemnity agreements that we have entered into with specific credit unions due to the outcomes described in Note 1.

3. An accrual for financial assistance is established by assessing the aggregate risk in the Alberta credit union system based on existing capital available in individual credit unions, current

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

and anticipated market and economic conditions, the likelihood of losses, and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the Alberta credit union system. Future economic conditions are not predictable with certainty and actual losses may vary significantly from management's estimate.

(h) Financial instruments

Classification of financial instruments

A financial instrument is a contract that establishes a financial asset for one party and a financial liability or equity instrument for the other party.

All financial instruments were classified either based on the type of instrument or the Corporation's intention regarding the instrument, as described below. Any new financial instruments are classified on inception. This classification determines how financial instruments are accounted for under the standards.

Held-for-trading

The Corporation classified cash resources as "held-for-trading" (or "HFT"). Financial assets and liabilities classified as HFT are measured on the Balance Sheet at fair value with changes in fair value (unrealized gains or losses) recorded in "net income" in the Statement of Income. Unrealized gains and losses from changes in fair value or realized gains or losses on disposal are accounted for as investment income. Any interest earned (or incurred) continues to be recognized on an accrual basis as interest income (or expense).

Available-for-sale

The Corporation classified investments including pooled funds as "available-for-sale". Financial assets classified as "available-for-sale" are measured on the Balance Sheet at fair value with changes in fair value (unrealized gains or losses) being recognized in other comprehensive income rather than net income. Unrealized gains and losses from changes in fair value are not recognized in income but are recognized in accumulated other comprehensive income ("AOCI") until sale when the cumulative gain or loss on disposal is transferred to the Statement of Income as investment income.

Held-to-maturity

The Corporation may classify financial assets as "held-to-maturity" (or "HTM") if the assets have fixed or determinable payments, a fixed term to maturity and if the Corporation has the ability and intention to hold the assets to maturity. HTM assets are measured at amortized cost using the effective interest rate method. The Corporation has not classified any financial assets as HTM.

Receivables

Accrued interest receivable and due from credit unions have been classified as receivables and are valued at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments.

Financial liabilities

Accounts payable and accrued liabilities, accrual for financial assistance, special contribution payable and long-term unclaimed credit union balances have been classified as financial liabilities and have been valued at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments.

Transaction costs

Transaction costs relating to financial assets and liabilities are expensed as incurred.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

Comprehensive income and accumulated other comprehensive income
Comprehensive income is comprised of net income and other comprehensive income. For the Corporation, other comprehensive income includes net unrealized gains and losses on securities and pooled funds classified as available-for-sale.

Amounts recognized in other comprehensive income will eventually be reclassified to the Statement of Income and reflected in net income as gains or losses once securities classified as available-for-sale are realized.

Comprehensive income and its components are disclosed in the Statement of Comprehensive Income. This Statement also presents the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Balance Sheet.

Other
The Corporation has recognized investment transactions relating to its securities portfolio on a trade date basis.

(i) Changes in accounting policies

In 2009, the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, Financial Instruments – Disclosures, was amended to require enhanced disclosures about the relative reliability of the data, or "inputs", that an entity uses to measure the fair values of its financial instruments for fiscal years ending after September 30, 2009. The new requirements are for disclosure only and did not impact financial results of the Corporation. This enhanced disclosure is provided in Note 3 of these financial statements.

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 recommends an entity take into account its own credit risk and that of the relevant counterparty(ies) when determining the fair value of financial assets and financial liabilities, including derivative instruments. This did not significantly impact the Corporation's financial position or results because we restrict our transactions to counterparties with good credit ratings (A plus or greater).

(j) Future change in accounting policy

The basis for financial reporting by Canadian publicly accountable enterprises will move from Canadian Generally Accepted Accounting Principles ("GAAP") to International Financial Reporting Standards ("IFRSs") for fiscal year-ends beginning on or after January 1, 2011. As such, we will be required to prepare our December 31, 2011 financial statements including comparative information in accordance with IFRSs. This change is part of a worldwide transition intended to facilitate global capital flows and greater clarity and consistency in financial reporting in the global marketplace. The Corporation participates in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada and has completed an analysis of the expected areas of impact on the Corporation. Furthermore, the Corporation completed the development of a detailed implementation plan; and are on target with our internal deadlines. A formal project governance structure is in place which includes a steering committee consisting of the Vice Presidents from each department, and it receives regular updates on the IFRSs initiative.

IFRS 1, First-time adoption of IFRSs, establishes the procedures that entities need to follow when initially adopting IFRSs. IFRS 1 permits an entity to take certain optional elective exemptions to avoid retrospective application

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

of IFRSs in specific areas (i.e. restatement of the comparative period as if the entity has always applied IFRSs). The Corporation documented the decisions made with respect to each of the available elections in December 2009. The Corporation does not anticipate significant material differences between our current accounting policies and IFRSs.

NOTE 3 INVESTMENTS

The Corporation has classified all investments, including pooled funds, as available-for-sale. These investments are measured on the Balance Sheet at fair value.

a) Fair value

The fair value of the Corporation's financial instruments are summarized below:

($ Thousands)	2009		2008	
	Fair Value[1]	**Cost**	**Fair Value**[1]	**Cost**
Directly held:				
Securities issued or guaranteed by:				
Canada	$ 30,460	$ 30,077	$ 37,738	$ 34,666
Provinces	39,372	37,905	24,021	22,924
Financial institutions	15,559	14,565	14,840	14,578
Asset backed securities and other[2]	18,933	18,846	20,252	20,914
Pooled funds:				
Universal Fixed Income Pool	25,569	25,726	23,707	24,746
Total	**$ 129,893**	**$ 127,119**	**$ 120,558**	**$ 117,828**

[1] Fair value is calculated using independent pricing sources and Canadian investment dealers. The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is an estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Investment in bonds and pooled funds are valued at year end quoted prices where available. For those investments where quoted market prices are not available, estimated fair values are calculated using discounted cash flows that reflect current market yields.

[2] Other securities are shares of Credit Union Central Alberta Limited ($100,000) and Concentra Financial Services Association ($15,000). These securities have no specified maturity and are classified as available-for-sale. As there is no market for the shares, the fair value is estimated at amortized cost.

NOTE 3 INVESTMENTS (continued)

As at December 31, 2009 securities directly held (excludes the Universal Fixed Income Pool) have an average effective yield of 3.2% based on fair value (2008: 3.4%). These securities have the following term structure: under one year: 6% (2008: 2%), over one year and under five years: 48% (2008: 45%), over five years and under ten years: 46% (2008: 53%).

The Universal Fixed Income Pool is managed with the objective of providing above average returns compared to the total return of the DEX Universe Bond Index over a four-year period while maintaining adequate security and liquidity of capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at December 31, 2009, securities held by the Pool have an average effective market yield of 5.1% per annum (2008: 6.0% per annum) and the following term structure based on principal amount: under one year: 4% (2008: 5%); one to five years: 34% (2008: 34%); five to ten years: 32% (2008: 29%); ten to twenty years: 15% (2008: 15%); and over twenty years: 15% (2008: 17%).

Included in the Corporation's investments in the Universal Fixed Income Pool are certain derivative contracts. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts held indirectly through pooled funds are used to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Included in the pooled funds are derivative contracts with a notional amount of $27,004,000 (2008: $37,022,000) and a net positive fair value of $44,000 (2008: negative $600,000). The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contract. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The pooled fund attempts to limit its credit exposure by dealing with counter-parties who have a good credit standing (A plus or greater.)

b) Fair value hierarchy

The following table provides a summary of management's best estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Corporation's investments. The measure of reliability is determined based on the following three levels:

Level One: The fair value is based on quoted prices in active markets.

Level Two: The fair value is based on inputs other than quoted prices that are observable market data.

Level Three: The fair value is based on inputs that are not based on observable market data.

NOTE 3 INVESTMENTS (continued)

		Level One		Level Two		Level Three		Total
Investment:								
Fixed income securities, directly held	$	104,209	$	-	$	115	$	104,324
Universal Fixed Income Pool		21,060		2,177		2,332		25,569
2009 - Total		**125,269**		**2,177**		**2,447**		**129,893**
- Percent		96%		2%		2%		100%
2008 - Total		116,561		2,010		1,987		120,558
- Percent		97%		2%		1%		100%
Increase (decrease) during the year	**$**	**8,708**	**$**	**167**	**$**	**460**	**$**	**9,335**

c) Investment income

Investment income is as follows:

($ Thousands)		2009		2008
Interest and dividend income	$	5,172	$	5,613
Net gain on sale of investments		1,185		233
Write down on investments		(302)		(562)
Derivative income		241		(510)
Total	**$**	**6,296**	**$**	**4,774**

d) Investment Risk Management

In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages AIMCo, an experienced independent fund manager to manage the portfolio. The Corporation's management is responsible for monitoring performance, recommending changes to the Corporate Investment Policy and fund manager. The Board of Directors is responsible for governance and strategic direction of the investment portfolio through its annual review and approval of the Corporate Investment Policy. The Corporation's directly held investment portfolio is managed with the objective of providing investment returns higher than the total return of the applicable Scotia Capital Universe Bond Index and all Government indices over a four year period. This portfolio is comprised of high quality Canadian fixed income and debt related instruments.

The independent fund manager (AIMCo) has the authority to use any of the following asset classes in the Universal Fixed Income Pool, when it is deemed appropriate and within specified limits:

a) Bonds, debentures, mortgages, annuities, notes or other debt instruments of governments, government agencies or corporations: rated AA or better.

b) Debt securities of private companies: rated A or better.

NOTE 3 INVESTMENTS (continued)

c) Private placements (either as individual investments or as an investment in a pooled fund managed by external managers): rated BBB or better.

d) Warrants, options, financial or currency futures, forwards, or other instruments designed to provide additional income or hedging opportunities or as part of a structure but not as vehicles for speculation.

e) Guaranteed investment contracts or equivalent of insurance companies, trust companies, banks or other eligible issuers.

f) Term deposits or similar instruments of trust companies or banks.

g) Cash or money market securities issued by governments or corporations.

h) Interest rate swaps, asset swaps, floating rate notes, index swaps, cross currency swaps.

i) Mortgage backed securities, asset backed securities, real return bonds.

j) Credit linked notes, credit default swaps, special purpose trusts.

k) Fully Hedged foreign bonds.

The Corporation is exposed to risks of varying degrees of significance which could affect its ability to support its obligation to guarantee deposits at credit unions. The main objectives of the Corporation's risk management processes are to ensure that risks are properly identified and that capital is adequate in relation to these risks. The principal investment risks to which the income and financial returns of the Corporation are exposed are described below.

Credit Risk

Credit risk related to securities arises from the possibility that the counterparty to an instrument fails to discharge its contractual obligation to the Corporation, or the possibility of a decline in the value of a debt security following a rating downgrade.

To mitigate credit default risk, the Corporation has established specific rules to ensure the credit ratings of counterparties do not fall below an acceptable threshold. The Corporation only invests in issuers of debt instruments with a credit rating of A for federal and provincial investments, AA for financial institutions and AAA for asset backed securities from two recognized credit rating agencies (Standard & Poors and Dominion Bond Rating Service) for its directly held investments.

Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's cash and funding requirements in support of the guarantee of deposits at credit unions. Management expects that the Corporation's principal sources of funds will be cash generated from credit union regular assessments and interest earned on its investments to support its financial obligation to guarantee deposits at credit unions. The Corporation's investment policy provides for a minimum of 15% of investments to be held in cash or financial instruments which mature within one year. All of the Corporation's investments are classified as available for sale and can readily be sold should the need arise.

Market Risk

Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Investments are carried on the balance sheet at fair value and are exposed to fluctuations in fair value. Changes in unrealized gains (losses) to the value of investments are recorded as other comprehensive income, net of any other than

NOTE 3 INVESTMENTS (continued)

temporary impairments which are recognized immediately in net income. The Corporation's fixed income investments are exposed to interest rate risk.

The Corporation is exposed to interest rate fluctuations which could affect cash flows, term deposits and fixed income securities at the time of maturity and reinvestment of individual instruments. These fluctuations could affect the fair values of financial assets.

The fair value of the Corporation's investments is subject to fluctuation as a result of normal market risk. The principal factor influencing the fair value is the prevailing rate of interest. An increase of one percent in interest rates will result in a decrease of $6,181,000 (2008: $5,660,000) in the fair value of total investments, whereas, a decrease of one percent in interest rates will result in an increase in the fair value of the same amount.

NOTE 5 ACCRUAL FOR FINANCIAL ASSISTANCE

To fulfill the mandate described in Note 1 and as described in Note 2(g), the Corporation assists Alberta credit unions experiencing financial difficulties when and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance, the amount of which, if any, is undeterminable at this time.

The amortized cost of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

NOTE 4 PROPERTY AND EQUIPMENT

($ Thousands)			2009	2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	$ 443	$ 352	$ 91	$ 98
Computer equipment	197	154	43	39
Leasehold improvements	220	197	23	42
Computer software	507	447	60	80
Total	**$ 1,367**	**$ 1,150**	**$ 217**	**$ 259**

NOTE 5 ACCRUAL FOR FINANCIAL ASSISTANCE (continued)

($ Thousands)		2009		2008
Accrual for financial assistance:				
Balance at beginning of year	$	1,800	$	1,000
Change in accrual for financial assistance		-		800
Balance at end of year	**$**	**1,800**	**$**	**1,800**
Provision for (recovery of) financial assistance:				
Change in accrual for financial assistance	$	-	$	800
Financial assistance payments		-		-
Loan loss recoveries		(11)		(18)
Provision for (recovery of) financial assistance	**$**	**(11)**	**$**	**782**

NOTE 6 SPECIAL CONTRIBUTION PAYABLE

($ Thousands)		2009		2008
Balance at beginning of year	$	16,700	$	15,008
Payment of previous year's special contribution		(16,700)		(15,008)
Special contribution for the year		17,625		16,700
Balance at end of year	**$**	**17,625**	**$**	**16,700**

A special contribution is an annual amount payable by the Corporation to the Province under the Credit Union Restructuring Agreement until 2010. It is equal to 0.11% of Alberta credit union deposits, including accrued interest and borrowings, as at October 31.

NOTE 7 COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

The Corporation is committed to a non-cancellable operating lease for business premises until the lease expires in February 2011 totalling $140,000 (2008: $259,000).

NOTE 7 COMMITMENTS AND CONTINGENCIES (continued)

The following amounts represent minimum payments over the next two years:

2010	120,000
2011	20,000

(b) Litigation

There is a legal proceeding pending against the Corporation that arose from normal business activities. Management of the Corporation believes that the financial cost of resolution of this proceeding will not be material to the financial position of the Corporation.

NOTE 8 DISCONTINUED OPERATIONS

On November 1, 2008 the Corporation completed the transfer of the administration of the Master Bond insurance policy to The CUMIS Group Limited and Credit Union Central Alberta Limited as the master policy holder. As a result of the transfer of responsibilities, the balance in the Master Bond Fund was redistributed to Alberta credit unions December 15, 2008 based on prorata share of premiums paid over the past five years. An independent review was conducted to determine the effectiveness and appropriateness of our role as the administrator and master policy holder of the insurance coverage for Alberta credit unions. It was concluded that this role was not a regulatory function and would be more effectively carried out by existing service providers to the credit unions.

Net income of the Master Bond Fund presented as discontinued operations is composed of the following:

($ Thousands)		2009		2008
Revenues:				
Insurance assessments	$	-	$	1,299
Investment income		-		73
		-		**1,372**
Expenses:				
Insurance premiums		-		921
Administration expenses (Schedule 1)		-		100
Insurance claims		-		(134)
		-		**887**
Net income (loss) from discontinued operations	$	-	$	485
Equity at beginning of year		-		1,378
Equity distribution		-		(1,863)
Equity at end of year	**$**	**-**	**$**	**-**

NOTE 9 INCOME TAXES

The Corporation is a deposit insurance corporation for income tax purposes and pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Its taxable income excludes assessments and financial assistance recoveries and no deduction may be made for financial assistance, insurance premiums, insurance claims or special contributions paid.

The Corporation's statutory income tax rate is 21.00% (2008: 21.00%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before income taxes, for the following reasons:

($ Thousands)		2009		2008
Expected income tax expense on pre-tax net income at the statutory rate	$	2,002	$	1,418
Add (deduct) tax effect of:				
Non-taxable assessments		(5,658)		(5,256)
Non-deductible special contribution		3,701		3,507
Non-taxable provision for financial assistance		(1)		164
Other		(1)		75
Income taxes paid (recovered)	**$**	**43**	**$**	**(92)**

At December 31, 2009 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately $51,000 (2008: $58,000). The resulting future income taxes recoverable are reflected in the balance sheet. The Corporation's future effective income tax rate is 21.00% (2008: 21.00%).

($ Thousands)		2009		2008
Current income taxes	$	42	$	(105)
Future income taxes		1		13
Income taxes paid (recovered)	**$**	**43**	**$**	**(92)**

NOTE 10 CAPITAL

The Corporation is not subject to externally imposed regulatory capital requirements. The capital of the Corporation consists of equity in the Deposit Guarantee Fund and the accrual for financial assistance. Accumulated other comprehensive income is not included in the calculation of capital. The Corporation's Policy on capital is based on a review of capital standards set by other deposit guarantee organizations in Canada. In accordance with this policy the Corporation will maintain the Deposit Guarantee Fund, including any amount established as an accrual for financial assistance, at a minimum of 0.80% of total credit union deposits and borrowings with a target of 1.0%. The actual amount of capital

NOTE 10 CAPITAL (continued)

at December 31, 2009 is 0.85% of total credit union deposits and borrowings. The Corporation manages capital through the following: quarterly reporting to the Board of Directors through its committees on financial results and capital, setting budgets and reporting variances to those budgets, setting policies for the Deposit Guarantee Fund management, monitoring and reporting, and reviewing the adequacy of the Deposit Guarantee Fund annually in conjunction with the review of assessment rates for credit unions.

NOTE 11 DIRECTORS' AND MANAGEMENT REMUNERATION

($ Thousands)				2009	2008
	Directors' Fees or Salary[1]	Other Cash Benefits[2]	Other Non Cash Benefits[3]	Total	Total
Chair[4, 5]	$ 24	$ -	$ -	$ 24	$ 24
Board Members[4, 5]	120	-	-	120	112
Current senior management:					
President and Chief Executive Officer	257	88	30	375	398
Vice President, Finance and Corporate Services[6]	182	46	22	250	301
Vice President, Credit and Risk Management	181	48	19	248	246
Vice President, Strategic Planning and Information Services	162	42	18	222	220

1 Salary includes regular base pay.

2 Other cash benefits include bonus and perquisite amounts.

3 Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, medical benefits including out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships and staff fund.

4 The Chair receives a $10,000 annual retainer. The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Alberta Finance and Enterprise is a Board Member but receives no remuneration from the Corporation.

5 The minimum and maximum amounts paid to directors were $4,000 (2008 - $2,000) and $24,000 (2008 - $24,000) respectively. The average amount paid to directors was $18,000 (2008 - $14,000).

6 The 2008 amount included payout of accummulated vacation of $51,328.

NOTE 12 2009 BUDGET

The 2009 budget was approved by the Board of Directors on December 2, 2008.

NOTE 13 COMPARATIVE FIGURES

The 2008 figures have been reclassified where necessary to conform to 2009 presentation.

SCHEDULE OF ADMINISTRATION EXPENSES

For The Years Ended December 31

($ Thousands)	2009	2009	2008
	Budget	**Actual**	**Actual**
Deposit Guarantee Fund			
Salaries and benefits	$ 4,763	$ 4,616	$ 4,272
Professional fees	340	276	338
Rental charges	217	253	200
Office	266	215	197
Other	356	216	189
Staff travel	213	170	176
Board and committee fees	127	144	136
Amortization	157	163	115
Board and committee expenses	67	40	45
	6,506	**6,093**	**5,668**
Allocation to Master Bond Fund (Note 8)	-	-	(100)
	$ 6,506	**$ 6,093**	**$ 5,568**

CORPORATE GOVERNANCE PRACTICES

The Board of Directors and management have established governance practices that are consistent with the Guidelines for Improved Corporate Governance in Canada adopted by the Toronto Stock Exchange. Our governance practices are also consistent with the National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices. While we are not required to follow these guidelines, the Corporation will continue to follow best practices guidelines on governance as these come into effect and consider amendments to our practices, as appropriate.

The Agency Governance Secretariat was established to provide agencies, boards and commissions of the Alberta government with a Public Agencies Governance Framework. This framework is being formalized with the anticipated proclamation of Bill 32, the *Alberta Public Governance Agencies Act* (APAGA) in early 2010. This framework applies to the Corporation and we are reviewing enhancements to our current practices to add value and to continue to contribute to organizational effectiveness and performance. For the 2009 Annual Report, we enhanced our governance practices and these are included below.

The Board of Directors oversees the business and affairs of the Corporation and operates under formal Terms of Reference. The Board makes all major policy decisions for the Corporation. Many Board functions are carried out by the three committees of the Board, with committee recommendations debated and voted on by the Board.

The Board has a "Code of Conduct and Ethics Policy for Directors" that is acknowledged on an annual basis. The effectiveness of the Board and the committees is assessed annually by each director with the objective of continually improving corporate governance practices.

Board Mandate

The Board is responsible for the stewardship of the Corporation and ensures its purposes and business activities as outlined in the *Credit Union Act* are fulfilled, as per its Terms of Reference.

- the Board holds a planning meeting annually for the development of a strategic plan. In accordance with the Bylaws, the final plan is approved by the Board and submitted to the Minister of Finance & Enterprise for approval.
- the risks of the Corporation are identified on a regular basis through the strategic planning process and at Board and committee meetings. The Corporation has adopted an Enterprise Risk Management Framework.
- the Governance and Human Resources Committee reports to the Board regarding senior management succession planning and staff training. The Board monitors and approves the appointment of the President and CEO position.
- the Board approves the communications policy for the Corporation.
- the integrity of internal controls and management information systems are reviewed at Audit and Finance Committee meetings.
- the Board administers the Memorandum of Understanding (MOU), which was replaced in 2010 with a new Mandate and Roles Document, between the Minister of Finance & Enterprise and the Corporation.
- the review of committee memberships and Terms of Reference annually.

- the Board approves and monitors the bylaws, policies and practices of the Corporation.
- the Audit and Finance Committee reviews quarterly financial reports and performance and recommends the approval of annual audited financial statements to the Board.
- the Board reviews recommendations from the committees and establishes ad hoc task forces of the Board as needed.
- the Board establishes appropriate deposit guarantee rates assessed to the credit unions.
- the Board approves the Annual Report.

Composition of the Board

All the directors are appointed by the Lieutenant Governor in Council and are "unrelated" and independent of management, except for the Deputy Minister of Finance & Enterprise. Credit Union Central Alberta Limited (Central) provides names of two nominated representatives. The Minister appoints the Chair and Vice Chair. The Board annually reviews its composition to determine that a majority of directors are "unrelated" (independent). The size of the Board is up to nine members as specified in the *Credit Union Act*. A process exists for the Corporation to make recommendations to amend the *Credit Union Act*.

Committees of the Board

The Committees of the Board are composed of outside directors who are unrelated. There are three committees of the Board; the Audit and Finance Committee, the Governance and Human Resources Committee, and the Risk Management Committee. The Audit and Finance Committee and the Risk Management Committee are legislated under the *Credit Union Act*. Each of the committees consists of a majority of directors who are independent and free from any relationship that may interfere with the exercise of independent judgment.

The roles of the Audit and Finance Committee are clearly defined in the *Credit Union Act* and in its Terms of Reference which is approved by the Board. The duties of the Audit and Finance Committee include the oversight for management reporting on internal control, financial reporting content and the independent audit processes. The Audit and Finance Committee meets at least annually with external auditors, without management present, to discuss and review specific issues. In addition, this Committee oversees the Whistleblower Policy and any related concerns. The Audit and Finance Committee reports on the financial performance of the Corporation and reviews and recommends financial policies when required. The Governance and Human Resources Committee operates under its Terms of Reference. This committee is responsible to oversee matters of Board governance and to recommend changes to the Board as appropriate. The duties of the Risk Management Committee are to monitor and report to the Board on significant risks within the credit union system, provide oversight on the credit and risk management functions of the Corporation and to assume the duties, functions and powers of a special loans committee.

The Terms of Reference for the Board and committees were reviewed. All board and committee activities scheduled for 2009 were completed. Work plans for 2010 outlining planned activities for the Board and committees were developed.

Nomination of Directors

The Nominations Committee, consisting of the Chair of the Board, Deputy Minister of Finance & Enterprise and an independent representative, appointed by the Minister of Finance & Enterprise, will

review prospective candidates. The Governance and Human Resources Committee reviews the skill sets of the Board and develops and maintains a Board Competency Matrix and a Board Succession Plan. New candidates for Board nomination are identified through the annual review of the Board Succession Plan.

In preparation for the search and selection process, the Governance and Human Resources Committee will set clear recruiting priorities. This will include:

- Review of the Board's Competency Matrix and identification of gaps between skills and knowledge required,
- Review of the current Director Recruitment Profile document,
- Review of the Corporation's Strategic Plan,
- Review of current composition of the Board to achieve diversity.

The Nominations Committee will put forward a short-list for consideration by the Minister of Finance & Enterprise. The Minister of Finance & Enterprise will make a decision on the Director appointment, advise the Board Chair and make this recommendation to the Lieutenant Governor in Council. The Board recognizes that the ultimate responsibility for developing and posting job profiles and making Board appointments rests with the Government of Alberta. The recruitment process for Directors has been updated as per the Agency Governance Secretariat template and guidelines.

Additions to the Board included the appointment of Peter Lindhout in May 2009, Tim Wiles in September 2009 and the reappointment of Ken Motiuk to another three year term. Mr. Motiuk was also appointed Vice Chair of the Board in July 2009. These appointments to the Board were completed by Order in Council. The process has commenced to fill two forthcoming vacancies on our Board.

Meetings of Independent Directors

The Board does not have any directors who are members of management; therefore the Board functions independent of management. The Chair ensures the Board carries out its responsibilities effectively. The Board has made a provision for individual directors to engage an outside adviser at the expense of the Corporation when appropriate. The engagement is subject to approval by the Board. An in-camera session (without management present) is held at least at the quarterly meeting. There were eight Board meetings held during 2009.

Position Descriptions

The Governance and Human Resources Committee reviews the position description for the Chair, Vice Chair, Board members, and the President and CEO. This committee also makes recommendations to the Board regarding the annual objectives and targets and the annual performance assessment for the President and CEO.

Compensation

The Corporation is a Provincial corporation according to the *Financial Administration Act*. Compensation for directors of the Corporation is established by the Committee Remuneration Order approved by the Lieutenant Governor in Council. The Chair of the Board also receives an annual retainer.

The Governance and Human Resources Committee reviews corporate human resource matters, personnel policies and overall employee compensation arrangements as outlined in its Terms of Reference. Recommendations are made to the Board with respect to compensation, incentive compensation plans and overall employee compensation arrangements. In 2009, a Succession Planning Policy, a General Recruitment Policy and an Executive Recruitment Policy were developed and approved.

Orientation and Continuing Education

The Governance and Human Resources Committee oversees the orientation and education program which is provided to new Board members. The committee reviews the Board Governance Handbook which outlines the role of the Board, its committees and directors, the Corporation Bylaws and Policies and an overview of the Corporation's business and the nature and operation of each department. The Board Governance Handbook and the Board Orientation Handbook are reviewed and updated annually. The Governance and Human Resources Committee oversees the education for all directors. The Chair approves all educational requests for directors. Educational opportunities are provided at Board meetings.

The matrix that identifies competencies required for the Chair and members of the Board and the current competencies of existing members is reviewed annually. The Board reviewed the Director Orientation and Professional Development Policy and reviewed Director Training opportunities for 2010.

Regular Board Assessments

The Governance and Human Resources Committee is responsible for developing and administering performance questionnaires to evaluate performance of the Board and Committees. The performance questionnaires are completed annually. The Chair reviews the contribution and performance of individual directors with each director annually.

Code of Business Conduct and Ethics

The Board has adopted a written Code of Conduct and Ethics for Directors and for officers and employees. The Code addresses the following:

- conflicts of interest, including transactions or agreements where a director has a material interest
- protection and proper use of corporate assets and opportunities
- confidentiality of corporate information
- fair dealing with customers, suppliers and employees
- compliance with laws, rules and regulations
- reporting of any illegal or unethical behaviour.

The Governance and Human Resources Committee monitors compliance with the Code on an annual basis. All directors and employees are required to annually acknowledge the Code and compliance with it. No departures from the Code have been identified. If a director has a material interest relating to a transaction, this is to be disclosed to the Chair and that director must excuse themself from the discussion and voting on this matter. A revised Code of Conduct and Ethics for Directors and for officers and employees was approved in early 2010 based on the Agency Governance Secretariat template and guidelines.

The Board encourages and promotes a culture of ethical business conduct by emphasizing good governance practices through the Governance and Human Resources Committee's regular review of the Mandate and Roles Document and Board Governance Handbook. The Code of Conduct & Ethics, the Mandate and Roles Document and the Director recruitment process will be available on our website www.cudgc.ab.ca in April 2010.

BOARD AND COMMITTEES

Members	Meetings Attended	Responsibilities
Board		
Allister McPherson (Chair)[1] Ken Motiuk (Vice Chair)[2] Tim Wiles[3] Herb Der Ross Goldsworthy David McDonald Loraine Oxley Peter Lindhout[4]	8 8 4 8 7 7 8 6	The Board of Directors operates under formal Terms of Reference and has fulfilled its functions during 2009. The main functions of the Board are to: • Establish and monitor strategic direction of the Corporation • Approve and monitor the Corporation's current business plan • Oversee the risks of the Alberta Credit Unions and the Corporation • Establish the appropriate deposit guarantee rate assessed to Alberta Credit Unions • CEO selection, evaluation and compensation • Review Board membership annually • Report to the Minister and other parties as required by the *Credit Union Act* and Regulations.
Risk Management		
Ken Motiuk (Chair) Loraine Oxley Herb Der Ross Goldsworthy[5] David McDonald Peter Lindhout[4]	12 9 10 5 8 7	The Risk Management Committee operates under formal Terms of Reference and has fulfilled its functions during 2009. The main functions of the committee are to: • Monitor the lending approval processes to ensure sound lending principles are maintained • Approve loans that exceed the CEO limits, when necessary • Provide oversight for all credit union risks • Give objective feedback to management on approved loan transactions.
Audit & Finance		
Loraine Oxley (Chair) Ken Motiuk Herb Der Ross Goldsworthy	5 5 4 5	Functions of the Audit & Finance Committee are set out in section 81 and 87 of the *Credit Union Act* and it operates under formal Terms of Reference. This committee has fulfilled its functions during 2009 and acts as a bridge between the Board of Directors and the auditors, and • Monitors the financial performance of the Corporation • Recommends financial policies of the Corporation • Approves the Quarterly Report provided to the Minister of Finance & Enterprise Oversees: • Financial reporting content and processes • Systems of internal control and compliance with legal, ethical and regulatory requirements • Independent audit processes • Whistleblower policy and any reported concerns.
Governance and Human Resources		
Ross Goldsworthy (Chair)[5] Allister McPherson Tim Wiles[3] David McDonald	4 6 3 6	The Governance and Human Resources Committee operates under formal Terms of Reference and has fulfilled its functions during 2009. The main functions of the committee are to: • Oversee matters of Board governance and evaluation • Maintain Board Governance Handbook, Corporate Bylaws and Policies • Develop and maintain Board Succession Plan • Oversee orientation and education plan for directors • Monitor compliance with Code of Conduct and Ethics, Terms of Reference and Memorandum of Understanding with the Minister of Finance & Enterprise • Review corporate human resource matters • Evaluate the performance of the President and CEO • Review succession planning and compensation for executive • Review personnel policies and overall employee compensation arrangements.

[1] Chair during fiscal 2009
[2] Appointed Vice Chair July 2009 and as Chair February 2010
[3] Appointed as director September 2009
[4] Appointed as director May 2009
[5] Committee member effective May 2009

BOARD OF DIRECTORS

The Corporation is administered by a Board of Directors appointed by the Lieutenant Governor in Council of Alberta.

Allister McPherson, Chair[1]	Retired executive Edmonton, Alberta
Ken Motiuk, C.Dir., Vice Chair[2]	Farm business owner A corporate director Mundare, Alberta
Herb Der	A nominated representative from the credit union system Red Deer, Alberta
Ross Goldsworthy, CGA, CPA, ICD.D	President, R. Goldsworthy Consulting Ltd. A corporate director Calgary, Alberta
Peter Lindhout, FICB, FCCUI	A nominated representative from the credit union system St. Albert, Alberta
David McDonald	A corporate director Rocky Mountain House, Alberta
Loraine Oxley, CA, ICD.D	A corporate director Edmonton, Alberta
Tim Wiles, CA	Deputy Minister of Finance & Enterprise Province of Alberta Edmonton, Alberta

[1] Chair during fiscal 2009
[2] Vice Chair during fiscal 2009, Chair February 2010

To receive additional copies of this Annual Report, please fax your request to 780.428.7571 or email: mail@cudgc.ab.ca. This report will be available on our web site at www.cudgc.ab.ca in April 2010.

EXECUTIVE AND MANAGEMENT TEAM

Paul A. Kennett, FICB, ICD.D
President and Chief Executive Officer

Joel Borlé, MBA, PMP
Vice President, Strategic Planning & Information Services

Elaine Friedrich, BComm, CA
Vice President, Finance & Corporate Services

Walker Rogers
Vice President, Credit & Risk Management

John Dawson
Assistant Vice President, Risk Analytics

Monica Fenton
Assistant Vice President, Corporate Services

Terry Kowalyk
Assistant Vice President, Information Technology

Sue McCall
Assistant Vice President, Credit

Sofie McCook
Assistant Vice President, Risk Management

Chris Merriman, BComm
Assistant Vice President, Risk Management

Russ Morrow, MBA
Assistant Vice President, Information Services

Ann Phan-Weiland, CA
Interim Assistant Vice President, Finance

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

18th floor, 10130 – 103 Street
Edmonton, Alberta, Canada T5J 3N9

Tel: 780.428.6680 • Fax: 780.428.7571
Email: mail@cudgc.ab.ca • www.cudgc.ab.ca